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INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY  
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C O N F I D E N T I A L SECTION 01 OF 02 JEDDAH 000414

SIPDIS

RIYADH PASS TO DHAHRAN  
DEPARTMENT FOR NEA/ARP, EB

E.O. 12958: DECL: 09/28/2018  
TAGS: [ECON](#) [EIND](#) [EINV](#) [ELAB](#) [EPET](#) [SA](#)  
SUBJECT: KING ABDULLAH ECONOMIC CITY STILL SEEKING CRITICAL  
MASS

REF: 07JEDDAH508

Classified By: Consul General Martin Quinn for Reasons  
1.4 (b) and (d).

¶1. (C) SUMMARY: An official at the Saudi Arabian General Investment Authority (SAGIA) confided that despite construction progress, the success of the King Abdullah Economic City (KAEC) is far from assured. Although a core group of multinational companies have committed to opening operations in KAEC, the city will require many more such anchor tenants before it is a viable economic center. SAGIA seeks to attract these investors with assurances of KAEC's business-friendly environment and Western-style freedoms. Privately, the official admits that the laws needed to safeguard these advantages are still "works-in-progress."  
END SUMMARY.

A new city for new industries  
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¶2. (C) During a September 7 meeting at SAGIA's Jeddah offices, Director General of Operations for Economic Cities Ahmed Al-Bader (strictly protect) told PolEconOff that his office is increasing efforts to attract foreign direct investment into KAEC, largest of the "Economic City" megaprojects designed to diversify the Saudi economy. Located 90 miles north of Jeddah, the KAEC site occupies 65 square miles and is composed of six zones: industrial, financial, educational, resort, residential, and seaport (Reftel). SAGIA, the agency responsible for improving the Kingdom's investment climate, seeks to attract multinational companies in the financial, petrochemical, and technology sectors that can build local human capital through knowledge transfer. Al-Bader noted that with 60 percent of the Kingdom's population under 30, creating jobs for young Saudis is a priority.

With construction on track, tenants sign up  
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¶3. (C) Al-Bader said that the pace of construction has improved greatly over the past year, largely in response to personal, unscheduled inspections by King Abdullah. 5,000 construction workers are currently involved under the direction of Dubai-based developer Emaar the Economic City (EEC), and an expected total of 10,000 will be on site within a year. The road and canal networks have been greatly expanded, with over SR 350 million (\$90 million) in road contracts awarded to the Saudi Binladin Group (SBG). Al-Bader also said that many residential units are nearing completion, and that sales of these units to brokers have surpassed SR 1 billion (\$265 million). The first phase of KAEC's business park has also been completed. He added that he was surprised that more U.S. firms were not bidding on KAEC's construction contracts, which are expected to total

\$120 billion.

14. (C) Al-Bader said that KAEC has attracted about 40 "anchor tenants" who have committed to opening operations within the city. EMAL International, a UAE-based aluminum producer, has signed a memorandum of understanding to invest SR 18 billion (\$5 billion) in the construction of a smelter complex in the city's industrial zone. Dubai Ports World has signed a memorandum to build and operate the KAEC Sea Port, expected to open in 2009. Mars and Nestle have committed to opening manufacturing plants. Additional memorandums have been signed by Cisco and Ericsson.

15. (C) To attract investors to the Economic Cities, Al-Bader said that SAGIA offers a more streamlined visa process with less stringent restrictions than those imposed on the general economy. SAGIA assumes the role of visa sponsor, enabling a guest worker to move to another company within KAEC without forfeiting the visa. The Saudization quotas will also be more lenient within KAEC, with a mandated 5 percent Saudi workforce versus the 10-20 percent currently required in most sectors of the general economy. Furthermore, the quota is aggregated, allowing KAEC the freedom to lower the quota in one sector while raising it in another according to labor requirements.

16. (C) The Kingdom's greatest attraction to foreign direct investment, according to Al-Bader, is access to low-cost energy. He cited aluminum and ammonia production as good matches for this advantage, saying that these processes are so fuel-intensive that the energy input can effectively be considered a raw material rather than a utility. By courting

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energy-intensive industries while expanding the downstream petrochemical sector, SAGIA hopes to diversify the Saudi economy while still leveraging the Kingdom's comparative advantage of easy access to oil.

Still needed: Critical mass, legislative support  
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17. (C) Al-Bader confided that KAEC will need many more corporate tenants before the city is a viable economic center with the critical industrial mass to grow on its own momentum. He listed security, labor, and culture as the three concerns raised most frequently by prospective tenants, particularly Western multinationals. Of these, security apprehensions have been the easiest to allay. It has been more difficult to convince international companies that they can find enough skilled labor in the Kingdom, or that their existing employees will want to live and work in an environment with so many cultural restrictions. He added that many prospective investors are also concerned that the Saudi system of commerce law is drastically insufficient to handle modern international trade.

18. (C) Al-Bader said that the Economic Cities were designed to address precisely these concerns by acting as cultural and legal incubators, but admitted that their future is not yet secure. He said that without continued support for these cities from the aging King Abdullah, a reactionary movement against perceived Westernization could "wash away their walls." Contradicting some open sources, he said it is not certain that women will be able to drive within KAEC. Al-Bader stressed that he hopes for a critical milestone in the next few months: a royal decree in support of the Economic Cities, to be followed with bylaws that clearly delineate the freedoms and protections that he is already promising prospective tenants.

19. (C) Asked about the most promising strategy towards this goal, Al-Bader drew a parallel to the low-profile course taken by the Supreme Commission for Tourism, which has pushed for decrees to make the Kingdom more accessible and attractive to visitors. He said the Commission has

downplayed its successes domestically until policy changes have become entrenched. Similarly, he hopes that the Economic Cities can avoid a large conservative backlash until they have grown into powerful centers of trade and employment. "Then," said Al-Bader, "the walls will withstand whatever they can throw at us."

¶10. (C) COMMENT: Al-Bader clearly expects KAEC's job creation function to play a critical role in winning over public support and averting a conservative backlash. It is therefore notable that the sectors SAGIA is courting are capital-intensive rather than labor-intensive, and that those jobs they do create often require skills that are undersupplied by the domestic labor force. The truly critical mass may not be the number of corporate tenants housed by KAEC, but rather the size of the Saudi population who can benefit from its opportunities. END COMMENT.  
QUINN